

**REPORT/RECOMMENDATION TO THE BOARD OF SUPERVISORS
OF SAN BERNARDINO COUNTY, CALIFORNIA
AND RECORD OF ACTION**

Revised
Attachment

39

March 23, 2004

FROM: **DAVID H. SLAUGHTER**, Director
Real Estate Services Department

LINDA HAUGAN, Director
Transitional Assistance Department

SUBJECT: **LEASE AMENDMENT WITH WORLD PLAZA, LLC**

RECOMMENDATIONS: Approve Amendment No. 1 to Lease Agreement No. 00-241 with World Plaza, LLC to exercise three existing one-year options to extend the term through February 28, 2011, add two five-year options to extend the term, and increase the leased space by 8,500 square feet for a total of 29,942 square feet of office space in San Bernardino for the Transitional Assistance Department (TAD) in the amount of \$3,596,244.

BACKGROUND INFORMATION: On April 25, 2000, the Board approved a seven-year lease agreement (No. 00-241) with three one-year options for 21,442 square feet of office space at 1585 East Highland Avenue in San Bernardino for Human Services System's (HSS) TAD and Job and Employment Services Department (JESD). The original term was from March 1, 2001 through February 29, 2008 with a base rent of \$1.05/square foot with 2.75% annual increases plus \$0.30/square foot for tenant improvements. Also, HSS has a first right of refusal on any contiguous space for future expansion needs.

On August 1, 2003, the CAO approved a CIP No. 03-14 submitted by HSS that allowed for the expansion into 8,500 square feet of contiguous space at this location. As part of HSS consolidation plans, this expansion will allow staff from Department of Behavioral Health and TAD to relocate to this site from different facilities in San Bernardino. HSS requested RESD exercise the remaining three one-year options for TAD, which will extend the term to February 28, 2011, and consolidate the expansion space within the terms and conditions of the original lease agreement.

In order to facilitate TAD's expansion needs, the lessor will complete \$251,940 (\$0.39/sq.ft.) of additional tenant improvements (TI) to the 8,500 square feet of contiguous space. Upon completion of the TI's (anticipated to be November 1, 2004) the amortized costs for the additional TI's will be added to the initial base rent of \$1.14/sq. ft. for a total of \$1.53/sq.ft./full service through February 28, 2005. Annual increases will be applicable to the base monthly rent only.

The monthly rent for the existing space of 21,442 square feet will remain at \$1.44/sq.ft../full service (\$1.14 base rent plus \$0.30 for TI's) through February 28, 2005. TI's of \$0.30/sq.ft. will be fully amortized February 29, 2008. Annual increases will be applicable to the base monthly rent only.

The lease terms are summarized as follows:

Lessor: World Plaza, LLC
 (Jian Torkan, Manager)

Location: 1585 East Highland Avenue, San Bernardino

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Size: (existing space) 21,442 square feet of office space
 (additional space) 8,500 square feet of office space
 (total) 29,942 square feet of office space

Term: Seven years

	<u>Cost per sq.ft. per month</u>	<u>Monthly</u>	<u>Annual</u>
Rent: (old)	\$1.44 x 21,442/sq.ft.	\$30,856	\$370,272
(new)	\$1.44* x 21,442/sq.ft. (existing space)	\$30,856	\$370,272
	\$1.53* x 8,500/sq.ft. (additional space)	<u>\$13,005</u>	<u>\$156,060</u>
	Total new rent:	\$43,861	\$526,332

*Mid-range for the San Bernardino area

Annual increase: 2.75% on base rent only, effective March 1st each year

Options: Two five-year options

Improvement costs:

(existing space) \$640,338 (\$0.30/sq.ft./month)--\$380,784 is still remaining to be paid and will be fully amortized February 29, 2008
 (additional space) \$251,940 (\$0.39/sq.ft./month) to be amortized over the seven-year period ending February 28, 2011

Custodial: Provided by Lessor

Maintenance: Provided by Lessor

Utilities: Provided by Lessor

Right to terminate: County has the right to terminate with 90-days notice after the guaranteed term of the original lease ends February 28, 2006

Parking: 115 unassigned parking spaces, which is sufficient for County needs

HSS is aware that the three one-year options being exercised are the last available options to extend the term and requested RESD negotiate the addition of two five-year options to allow the department to remain at this location beyond February 28, 2011. Due the area desired, which is in close proximity to the clients to be served, and the size of the building required, it took approximately three years to locate a suitable site and consummate a lease agreement. In addition, TI costs will be fully amortized and moving costs would not be incurred if the department were able to remain at this location. Negotiations to exercise either of the two additional five-year options would include monthly rent and the County's right to terminate.

REVIEW AND APPROVAL BY OTHERS: This item has been reviewed by County Counsel (Fiona Luke, Deputy County Counsel, 387-5474) on December 8, 2003; HSS Administration [Lynne Fischer (388-0252) and Kristin Letterman (388-0330), Administrative Analysts] on January 9, 2004 and March 17, 2004 respectively; and the County Administrative Office (Daniel R. Kopp, Administrative Analyst, 387-3828) on March 17, 2004.

FINANCIAL IMPACT: The total cost of this seven-year lease amendment is \$3,596,244. The cost in 2003-04 will be \$370,272 (\$30,856 per month x twelve months). Sufficient appropriation and revenue will be included in the 2004-05 HSS Administrative Claim budget. Payments will be made from the Rents budget (AAA RNT) and reimbursed from the HSS budget (AAA DPA TAD). Annual lease costs are as follows:

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<u>Year</u>	<u>Annual lease cost</u>
Mar. 1, 2004 - Feb. 28, 2005	\$422,292
Mar. 1, 2005 - Feb. 28, 2006	\$537,588
Mar. 1, 2006 - Feb. 28, 2007	\$549,156
Mar. 1, 2007 - Feb. 28, 2008	\$561,048
Mar. 1, 2008 - Feb. 28, 2009	\$496,056
Mar. 1, 2009 - Feb. 28, 2010	\$508,608
Mar. 1, 2010 - Feb. 28, 2011	\$521,496

COST REDUCTION REVIEW: The County Administrative Office has reviewed this agenda item, concurs with the department's and RESD's proposal, and recommends this action based on the programmatic needs for space in the San Bernardino area. These expenditures are approximately 90% federal and state funded and 10% local share funded. The local share is funded approximately 52% realignment revenues and 48% local cost. Funding is anticipated to be available for the term of this lease. Approval of this lease amendment will enable consolidation of this space with other HSS departments. The lease can be terminated with a 90-days notice after February 28, 2006.

SUPERVISORIAL DISTRICT: Fifth

PRESENTER: David H. Slaughter, Director, 387-7813

MC: 387-7816 bas: 387-7830

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